

VZCZCXRO7758
RR RUEHGR
DE RUEHKG #0401/01 1281819
ZNR UUUUU ZZH
R 071819Z MAY 08
FM AMEMBASSY KINGSTON
TO RUEHC/SECSTATE WASHDC 6298
INFO RUCNCOM/EC CARICOM COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC
RUEHDG/AMEMBASSY SANTO DOMINGO 5933

UNCLAS SECTION 01 OF 02 KINGSTON 000401

SENSITIVE

SIPDIS

STATE FOR WHA/CAR (JTILGHMAN) (VDEPIRRO)
WHA/EPSC (PMAIER)

TREASURY FOR SARA GRAY
EEB/TRA
EEB/IFD/ODF
DEPARTMENT PLEASE PASS TO USTDA FOR JORGE ESTEBAN

SANTO DOMINGO FOR FCS AND FAS

E.O. 12958: N/A

TAGS: [EAIR](#) [PREL](#) [ECON](#) [ETRD](#) [EINV](#) [IBRD](#) [IDB](#) [JM](#) [XL](#)
SUBJECT: JAMAICA: USTDA TO HELP PRIVATIZE AIR JAMAICA

SUMMARY

1. (SBU) The Government of Jamaica (GOJ) has taken another major step to sell the financially distressed national carrier, Air Jamaica. On May 5, it signed an agreement with the U.S. Trade and Development Agency (USTDA) for USD 820,000 in grant funding. The funding will assist with technical services for the privatization process. This grant follows the signing of an Advisory Services Agreement with the International Financial Corporation (IFC) to lead the overall divestment process. GOJ officials used the signing opportunity to reiterate their commitment to a completion of the airline's privatization by March 2009. End summary.

SIGNING CEREMONY

2. (SBU) On May 5, the GOJ signed an agreement with the USTDA for USD 820,000 in grant funding. The signing ceremony was hosted by Minister of Finance and the Public Service Audley Shaw and Minister without Portfolio Don Wehby. Wehby has been tasked by the GOJ to manage the privatization of Air Jamaica. Director of USTDA Larry Walther said, "I am especially grateful that USTDA has been given this opportunity to help revitalize Air Jamaica, which plays such an important role in Jamaica's economic development." USTDA assistance was well received by the GOJ and could open the door for future cooperation in areas such as alternative energy.

3. (U) The USTDA funds consists of two grants. The first is USD 480,000 to fund technical assistance to develop the appropriate legal framework and tendering documents for the privatization. The second grant for USD 340,180 will finance technical assistance to develop financial modeling of the Air Jamaica's performance and to provide recommendations for environmental abatement measures to help the airline meet international standards for noise and air emissions.

4. (U) The signing also was attended by Samy Watson and Bandrul Haque of the World Bank (WB). Rostan Schwab, Investment Officer for Advisory Services and Kirk Ifill, Resident Representative for the Latin America and Caribbean Department, both from the International Finance Corporation (IFC) participated in the signing. IFC is part of the WB group. Charg in his remarks welcomed USTDA's cooperation on Air Jamaica privatization and he signed as witnesses to the grant agreements.

15. (SBU) Wehby reiterated the government's commitment to privatizing the airline by March 2009. The broad objectives of the GOJ remain: (a) transfer of complete or substantial majority ownership and full management control to the private sector; (b) recapitalization of the airline; (c) retention and long-term sustainability of Air Jamaica as the national carrier; and, (d) structural or contractual linkage to a major global carrier. Shaw said, "privatization of the airline is the only viable option for a stronger and vibrant Air Jamaica." Shaw added, "the GOJ cannot afford losses for a protracted period of time and the GOJ cannot afford to recapitalize the airline on its own." Shaw predicted the airline would return to profitability once it is privatized.

PRIVATIZATION TEASER

16. (U) Wehby also presented the press with a teaser document outlining the positives of Air Jamaica. In addition to describing the business opportunity, the document points to the significant improvements being made to the island's two international airports as well as Jamaica's position as the premium tourism destination in the Caribbean. The document also points out that Air Jamaica could offer significant potential value under the leadership of a strong strategic airline investor. The airline will be sold on a going concern basis, but the GOJ will continue to support the airline until its divestment. Regarding the timeline, from March to July of this year, the IFC will coordinate the seller's due diligence by analyzing Jamaica's air transport market, undertake preliminary market testing, and supervise the legal, technical, and economic due diligence by consultants. At the end of this phase, IFC will propose a set of strategic options for the sale of the airline. From July to December 2008, IFC will implement the GOJ's preferred option for the sale to potential investors, organize a competitive bidding process, and assist the GOJ with bid evaluation, negotiation of transaction agreements, and closing.

COMMENT

17. (SBU) The signing of a grant agreement with USTDA is yet another demonstration of the GOJ's determination to rid taxpayers of the burden being placed on them by the loss making national airline. Air Jamaica is seen as a national symbol of pride by many Jamaicans; its sale to private investors thus is politically risky for the Jamaica Labour Party (JLP)-led government. The fact that the GOJ is willing to move swiftly in the divestment process and address the financial challenges of Air Jamaica directly is the clearest indication yet that the GOJ is committed to ridding the country of loss making entities which will improve the financial situation for the debt-strapped country. The fact that the IFC has been contracted to lead the divestment process also demonstrates the JLP government's willingness to engage multilaterals, a fact the Ministry reiterated during the signing ceremony. It is therefore not surprising that IADB President Moreno has agreed to make his first official visit to Jamaica on June 6. The decision of the USTDA to support the privatization process also could set the stage for future engagement, particularly in the area of renewable energy.

End comment.

HEG